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*Deu Darn*

**Public Accounts Committee Inquiry on the Financial Challenges Facing Local Government – Welsh Government Response**

Further to recent correspondence in respect of the above, I am writing with my observations on the response from the Deputy Permanent Secretary, Owen Evans, in his letter of 14 September 2015.

The Deputy Permanent Secretary's letter builds on the comments made by June Milligan in her letter to the Committee dated 24 June 2015, which I commented upon in my letter dated 1 July. The Committee raised five important issues and the Deputy Permanent Secretary has responded to each of these,

The first issue relates to the difference in interpretation on how much local government funding provided by Welsh Government has reduced in recent years. The response received from the Deputy Permanent Secretary acknowledges there are real difficulties in undertaking such an assessment but still does not provide a bottom line position on the total reductions in local government budgets between 2010-11 and 2014-15.

Work I am undertaking for the 'Picture of Public Services 3' report shows that local government receives the bulk of its funding through the Aggregate External Finance (AEF). Comparing AEF across the period 2010-11 to 2014-15 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into AEF grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in AEF, it is not necessarily a net increase in funding. The net value of grants incorporated into AEF since 2010-11 is around £137 million in real terms (adjusted for inflation). In addition, the picture is complicated by the devolution of council tax benefit, which has been incorporated into the AEF. My estimation is that having adjusted for these factors to get as close to a like-for-like comparison as is possible based on the information that is available, there has been a real-terms reduction in local government funding by Welsh Government between 2010-11 and 2014-15 of £464 million (10 per cent).



Secondly, on the issue of ring-fencing grants, the response from the Deputy Permanent Secretary broadly reiterates the original response from June Milligan and whilst it acknowledges that progress has been made in reducing the number of grants in some areas, grants still account for 10 per cent of revenue spending. The Deputy Permanent Secretary acknowledges that in the current financial climate it is important to reduce as much as possible the burden of administering grants and to look for efficiencies.

Whilst the response from the Deputy Permanent Secretary does not include any detail on how Welsh Government intends to improve this further, for some years now, I have been pressing the Welsh Government to review the scope and nature of their grant certification commissioned arrangements, so that we can re-focus elements of that work to generate greater impact and hence support improvements in grants management. Over the last few months, a review has been taking place working closely with the Welsh Government's project team and I believe we have now reached a satisfactory agreement with both the Welsh Government and the Welsh Local Government Association on the broad principles of a series of changes that will be made over the next couple of years. It is anticipated that the new approach will enhance the impact and added value of this work and improve the efficiency of grants management.

The third point relates to the Chairman's request for the Welsh Government's assessment of the proportions of local authorities' budgets that are committed to statutory responsibilities or Welsh Government policy priorities and that which is not 'ring-fenced'. In particular, the Committee was keen to understand how Welsh Government assesses where reductions are likely to fall, and of the longer-term consequences, particularly in relation to discretionary services.

The response from the Deputy Permanent Secretary rightly acknowledges that local authorities have the freedom to decide how best to deliver their statutory responsibilities and this is a matter for them. Whilst this is correct, the response does not address the point made by local authorities in their evidence to the Committee, namely that the decision of Welsh Government to maintain or increase education spend and to address financial pressures on social services, the remaining services have taken a disproportionate hit. Indeed, evidence presented to the Committee highlighted the concerns of local authorities that many important discretionary services such as leisure are at risk of disappearing.

The Deputy Permanent Secretary acknowledges that the Welsh Government does not at this time have detailed information (or plans to collect such data, primarily due to cost) and is therefore unable to quantify how and where budget cuts will be made or the impact of reductions on statutory and discretionary services. In response to the Committee's question that *"it would be helpful to understand whether the Welsh Government makes any assessment of where reductions are likely to fall, and the longer-term consequences"* the answer would appear to be no.

Fourthly, the Committee asked what use had been made (by Welsh Government) of the reserves information. The response from the Deputy Permanent Secretary provides a more rounded view on how the data has been used, in particular noting that there has been some improvements in how reserves data is presented in some local authority statutory accounts. For clarity, it is important to note that it is not for me as Auditor General to necessarily comment upon or approve



reserve levels, although I may from time to time comment on reserve levels as part of my accounts work at a specific authority.

The Code of Practice on Local Authority Accounting in the United Kingdom requires local authorities to include a narrative about the purpose of their reserves and whilst I can encourage them to be more explicit, it would not be a qualification issue if they meet the requirements set out in the Code. Overall most local authorities in Wales have responded well and improved the narrative following our prompts as the letter indicates. It is also worth noting that in England discussion is currently taking place as to whether the UK Government should set a limit on reserves for English authorities. This may be a line of enquiry the Committee may wish to explore further.

Finally, the Committee asked whether the Welsh Government is satisfied that local government appreciates the collaborative process in setting the funding formula and whether the collaboration allows the best decisions on allocations to be made, rather than the decisions that most readily find consensus. The answer from the Deputy Permanent Secretary addresses the Committee's concerns on the quality and the robustness of the data underpinning decisions being subject to consultation. Indeed, the Deputy Permanent Secretary's confirmation that this is developed via the Distribution Sub Group, which includes local authority representation, provides some assurance on how agreement between Welsh Government and local authorities is achieved.

In addition, the Deputy Permanent Secretary also acknowledges the difficulties in achieving consensus between 22 local authorities and this is not always possible. Overall, this response better addresses the issue expressed in the Chairman's letter to June Milligan dated 21 May 2015.

In conclusion, I believe the response from the Deputy Permanent Secretary provides greater assurance on how Welsh Government is addressing these matters, but there remain opportunities to provide a fuller and more detailed response in some areas. The Committee might wish to consider whether it would wish to revisit these and other matters arising from its work on the financial challenges facing local government between now and the end of the fourth Assembly.



**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**

